

Message Text

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ACTION NEA-16

INFO OCT-01 ARA-16 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-03 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PM-07 DODE-00 PA-04 USIA-15 PRS-01

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4031

TREASURY DEPT WASHDC

INFO AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EFIN MX

SUBJECT: MEXICAN FOREIGN BORROWING

REF: (A) MEXICO 7812; (B) MEXICO A-420.

1. AS WASHINGTON AWARE MEXICO HAS HEAVY EXTERNAL FINANCING REQUIREMENTS. WHILE WE BELIEVE THAT IT CAN OBTAIN ADEQUATE FINANCING TO COVER ITS CURRENT ACCOUNT DEFICIT IN 1974 WITHOUT A DRAWDOWN IN ITS PRIMARY RESERVES, IT IS ENCOUNTERING DIFFICULTIES IN DOING SO.

2. TALKS WITH FOREIGN AND MEXICAN BANKERS INDICATE THAT NAFINSA EURO-DOLLAR BORROWING OF \$30 MILLION (REF A) WAS ORIGINALLY PLANNED TO BE \$60 MILLION. BANK OF AMERICA IS REPORTEDLY HAVING TROUBLE PUTTING TOGETHER \$100 MILLION EURO-DOLLAR LOAN, ORIGINALLY SCHEDULED TO BE \$150 MILLION, FOR BANCO DE OBRAS PUBLICAS. LOAN FOR SECOND STATE OF A MAJOR COPPER PROJECT HAD TO BE REDUCED AND WAS PLACED

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ONLY WITH ASSISTANCE OF GOM AGENCY GUARANTEE.

3. MOST U.S. COMMERCIAL BANK REPRESENTATIVES SAY THEY ARE OPERATING UNDER WORLD-WIDE GUIDELINES WHICH PERMIT LITTLE OR NO INCREASE IN THEIR PORTFOLIOS AND ARE TRYING TO INCREASE THEIR NET YIELDS ON LOANS AS THEY ARE ROLLED OVER. MOST COMMERCIAL BANK LENDING TO MEXICO FINANCED THROUGH EURO-DOLLAR MARKET. RATES, WHICH WERE LESS THAN ONE PERCENT OVER LIBO FOR PUBLIC SECTOR COMPANIES, ARE NOW ONE AND ONE-EIGHTH OR MORE OVER LIBO. ALSO MATURITIES HAVE DECLINED TO SIX OR SEVEN YEARS MAXIMUM FROM OVER TEN. IN GENERAL, BANKS ARE ABLE TO DICTATE TERMS, CONTRARY TO SITUATION AT BEGINNING OF YEAR.

4. WHILE TIGHT MARKET CONDITIONS ARE OF CONCERN TO MEXICAN OFFICIALS AND WILL UNDOUBTEDLY BE RAISED BY THEM DURING BANK/FUND MEETINGS, ONE INDICATION THAT THE FINANCING SITUATION IS STILL IN HAND IS THEIR APPARENT REFUSAL TO DATE TO ACCEPT ANY ARAB MONEY EXCEPT FOR THE SMALL PARTICIPATION IN SOME OF ITS EURO-DOLLAR BORROWINGS BY ARAB BANKS. MAIN REASON FOR REFUSAL APPEARS TO BE TERMS OFFERED BY ARAB OIL MONEY INTERESTS. ALSO, IN SPITE OF DIFFICULTIES, MEXICO STILL CAN RAISE FUNDS IN LONDON. LONDON-BASED LIBRA BANK, OF WHICH BANCO DE COMERCIO IS SHAREHOLDER, RECENTLY HELD BOARD OF DIRECTORS' MEETING IN MEXICO. MANAGING DIRECTOR WAS SOLICITING BUSINESS BASED ON U.S. INSURANCE COMPANY FUNDS AND MIDDLE EASTERN MONEY.

5. IT SHOULD ALSO BE NOTED THAT BANK OF MEXICO'S TIGHT MONEY POLICY IS CAUSING MEXICAN BANKS TO REFER INCREASING NUMBER OF THEIR CLIENTS TO FOREIGN BANKS.

6. MUCH OF ABOVE INFORMATION DEVELOPED IN COURSE OF CALLS ON MEXICAN AND FOREIGN BANKERS DURING VISIT BY YVES MARONI, SENIOR ECONOMIST, FEDERAL RESERVE BOARD.
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